

**Audited Financial Statements of
the Office of Thrift Supervision for
the Calendar Years 2000 and 1999**

OIG-01-073

May 8, 2001



Office of Inspector General

The Department of the Treasury



DEPARTMENT OF THE TREASURY

WASHINGTON, DC 20220

May 8, 2001

OFFICE OF
INSPECTOR GENERAL

MEMORANDUM FOR ELLEN SEIDMAN, DIRECTOR
OFFICE OF THRIFT SUPERVISION

FROM: William H. Pugh *William H. Pugh*
Deputy Assistant Inspector General
for Financial Management and Information
Technology Audits

SUBJECT: Audited Financial Statements of the Office of
Thrift Supervision for Calendar Years 2000 and
1999

I am pleased to transmit the audited financial statements of the Office of Thrift Supervision (OTS) for Calendar Years (CY) 2000 and 1999. These financial statements are incorporated in the attached *2000 Financial Report Office of Thrift Supervision*. The OTS' financial statements were audited by Deva & Associates, P.C., an independent public accountant (IPA). The IPA issued the following reports, which are included in the attachment:

- Independent Auditors' Report;
- Independent Auditors' Report on Internal Control; and
- Independent Auditors' Report on Compliance with Laws and Regulations.

The IPA rendered an unqualified opinion on the OTS' CY 2000 and 1999 financial statements. The Independent Auditors' Report on Internal Control contained no reportable conditions. In addition, the Independent Auditors' Report on Compliance with Laws and Regulations contained no instances of noncompliance.

My staff's review of the IPA's working papers determined that the work was performed in accordance with generally accepted government auditing standards. Should you have any questions, please contact me at (202) 927-5430, or a member of your staff may contact Mike Fitzgerald, Director, Financial Audits at (202) 927-5789.

Attachment

2000
Financial Report



***Office of Thrift
Supervision***

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INDEPENDENT AUDITORS' REPORT

To the Inspector General,
U.S. Department of the Treasury

We have audited the accompanying statements of financial position of the U.S. Department of the Treasury, Office of Thrift Supervision (OTS) as of December 31, 2000 and 1999, and the related statements of operations and changes in net position, and cash flows for the years then ended. These financial statements are the responsibility of OTS' management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with generally accepted auditing standards; and *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audits to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of OTS as of December 31, 2000 and 1999, and the results of its operations and its cash flows for the years then ended in conformity with generally accepted accounting principles.

In accordance with *Government Auditing Standards*, we have also issued a report dated March 30, 2001 on our consideration of OTS' internal control and a report dated March 30, 2001 on its compliance with laws and regulations.

Deva & Associates, P.C.

Certified Public Accountants

March 30, 2001

UNITED STATES DEPARTMENT OF THE TREASURY
OFFICE OF THRIFT SUPERVISION
STATEMENTS OF FINANCIAL POSITION
(In thousands)

	As of December 31	
	2000	1999
Assets		
Cash and cash equivalents (Note 3)	\$ 28,415	\$ 18,707
Accrued interest receivable	1,659	1,368
Accounts receivable	883	863
Investments held to maturity (Note 4)	87,224	108,703
Property and equipment, net (Note 5)	38,215	37,160
Other assets (Note 11)	1,859	1,887
Total Assets	\$ 158,255	\$ 168,688
Liabilities and Net Position		
Liabilities:		
Accounts payable	\$ 862	\$ 1,093
Accrued annual leave	8,869	8,972
Workers' compensation liability (Note 6)	5,623	4,493
Deferred compensation liability (Note 11)	983	954
Deferred rent credit	2,286	2,478
Post-retirement benefit liability (Note 8)	9,269	8,240
Other accrued liabilities (Note 7)	10,549	9,571
Total Liabilities	\$ 38,441	\$ 35,801
Net Position:		
Assumed capital (Note 2)	\$ 41,037	\$ 41,037
Retained earnings	78,777	91,850
Total Net Position	\$ 119,814	\$ 132,887
Total Liabilities and Net Position	\$ 158,255	\$ 168,688

The accompanying notes are an integral part of these financial statements.

UNITED STATES DEPARTMENT OF THE TREASURY
OFFICE OF THRIFT SUPERVISION
STATEMENTS OF OPERATIONS AND CHANGES IN NET POSITION
Years Ended December 31
(In thousands)

	<u>2000</u>	<u>1999</u>
Revenues		
Industry assessments	\$ 127,171	\$ 125,264
Examination, application, and security filing fees	4,153	6,710
Interest	7,764	7,687
Rental income (Note 9)	2,793	2,686
Other	<u>2,027</u>	<u>1,366</u>
Total Revenues	<u>\$ 143,908</u>	<u>\$ 143,713</u>
Expenses		
Personnel compensation	\$ 92,938	\$ 90,667
Benefits	25,145	26,748
Rent, communication, and utilities	8,358	7,735
Travel and transportation	12,255	12,263
Services	5,160	4,804
Data processing	4,893	3,692
Building expenditures	3,581	3,889
Office equipment and software	1,658	1,704
Miscellaneous	1,088	943
Depreciation	<u>1,905</u>	<u>1,264</u>
Total Expenses	<u>\$ 156,981</u>	<u>\$ 153,709</u>
Excess of Expenses over Revenues	\$ -13,073	\$ -9,996
Net Position, Beginning Balance	<u>132,887</u>	<u>142,883</u>
Net Position, Ending Balance	<u>\$ 119,814</u>	<u>\$ 132,887</u>

The accompanying notes are an integral part of these financial statements.

UNITED STATES DEPARTMENT OF THE TREASURY
OFFICE OF THRIFT SUPERVISION
STATEMENTS OF CASH FLOWS
Years Ended December 31
(In thousands)

	<u>2000</u>	<u>1999</u>
CASH FLOWS FROM OPERATING ACTIVITIES		
Excess of Expenses over Revenues	\$ -13,073	\$ -9,996
Adjustments to reconcile excess of Expenses over Revenues to net cash provided by operating activities:		
Amortization of net bond premium	1,479	1,661
Depreciation	1,905	1,264
Changes in assets and liabilities:		
Decrease (increase) in receivables	-311	180
Decrease in other assets	28	3,104
Decrease in accounts payable	-231	-300
Increase in other liabilities	<u>2,871</u>	<u>2,330</u>
Net cash used in operating activities	\$ -7,332	\$ -1,757
CASH FLOWS FROM INVESTING ACTIVITIES		
Purchases of investments	\$ 0	\$ -44,648
Maturities of investments	20,000	29,624
Purchases of equipment	<u>-2,960</u>	<u>-81</u>
Net cash provided by (used in) investing activities	\$ <u>17,040</u>	\$ <u>-15,105</u>
Net cash provided by (used in) operating and investing activities	\$ 9,708	\$ -16,862
Cash and cash equivalents, beginning of year	<u>18,707</u>	<u>35,569</u>
Cash and cash equivalents, end of year	<u><u>\$ 28,415</u></u>	<u><u>\$ 18,707</u></u>

The accompanying notes are an integral part of these financial statements.

**UNITED STATES DEPARTMENT OF THE TREASURY
OFFICE OF THRIFT SUPERVISION**

NOTES TO FINANCIAL STATEMENTS

1. REPORTING ENTITY

The Office of Thrift Supervision (OTS) was created when the Financial Institutions Reform, Recovery, and Enforcement Act of 1989 (FIRREA) abolished the Federal Home Loan Bank Board (FHLBB) and transferred all examination and supervisory activities to OTS under the Department of the Treasury. The primary functions of OTS are to: (1) charter federal savings and loan associations; (2) adopt regulations governing the operation of the thrift industry; (3) conduct examinations of federal and state chartered savings institutions and their holding companies; and (4) supervise compliance with federal laws and regulations and OTS directives, taking measures needed to enforce such compliance and rehabilitate troubled institutions.

FIRREA provides that OTS assess the institutions it regulates to recapture operating costs. Assessments are based on the OTS budget and are collected from savings and loans semiannually on January 31 and July 31.

2. SIGNIFICANT ACCOUNTING POLICIES

BASIS OF PRESENTATION

OTS has historically prepared its financial statements in accordance with generally accepted accounting principles based upon accounting standards issued by the Financial Accounting Standards Board (FASB), the private-sector standards-setting body. In October 1999, the Federal Accounting Standards Advisory Board (FASAB) was designated by the American Institute of Certified Public Accountants as the standards-setting body for financial statements of federal government entities with respect to the establishment of generally accepted accounting principles. FASAB has indicated, however, that financial statements prepared based upon accounting standards published by the FASB may also be regarded as being in accordance with generally accepted accounting principles for those federal entities such as OTS that have issued financial statements based upon FASB accounting standards in the past. Accordingly, consistent with historical reporting, OTS financial statements are presented in accordance with accounting standards published by FASB.

CASH AND CASH EQUIVALENTS

Cash and cash equivalents consist of OTS's account at the Department of the Treasury, various imprest funds and other accounts in Washington, DC and at regional offices, and funds invested overnight by Treasury on behalf of OTS.

INVESTMENTS HELD TO MATURITY

Effective January 1, 1994, OTS adopted Statement of Financial Accounting Standards No. 115, "Accounting for Investments in Certain Debt and Equity Securities". Under the statement, OTS is required to classify investment securities under three categories: (1) trading, (2) available for sale, and (3) held to maturity. All of the agency's investments consist of U.S. Treasury obligations. OTS has the intent and ability to hold these investments to maturity. Therefore, all investments are classified as held to maturity and are stated at amortized cost. Premiums and discounts are amortized over the term of the investments using the straight-line method, which approximates the interest method.

POST-RETIREMENT BENEFITS

OTS provides certain health and life benefits for all retired employees that meet eligibility requirements. Effective January 1, 1993, OTS adopted Financial Accounting Standards Board (FASB) Statement No. 106 to account for its share of the costs of those benefits. Under this statement, OTS's share of the estimated costs that will be paid after retirement is being accrued by charges to expense over the employees' active service periods to the dates that they are fully eligible for benefits, except that OTS has elected to amortize the transition amount (unfunded cost at January 1, 1993) over twenty (20) years beginning in 1993 in accordance with the option available in the statement. Prior to 1993, the Office

UNITED STATES DEPARTMENT OF THE TREASURY
OFFICE OF THRIFT SUPERVISION

NOTES TO FINANCIAL STATEMENTS

of Thrift Supervision expensed its share of the costs as claims were incurred by the retirees and as premiums were paid by OTS.

Pursuant to an agreement with the Office of Personnel Management (OPM) in 1994, OTS agreed to pay a one-time fee to OPM in consideration of OPM assuming the health care portion of the post-retirement plan liability.

ANNUAL, SICK, AND OTHER LEAVE

Annual leave is accrued as it is earned, and the accrual is reduced as leave is taken. The balance in the accrued annual leave account reflects current pay rates. Sick leave and other types of nonvested leave are charged to operating costs as taken.

PROPERTY AND EQUIPMENT

Fixed assets acquired by OTS are capitalized at cost. Individual fixed assets in excess of \$50,000 and bulk purchases in excess of \$250,000 are capitalized. The building owned by OTS is being depreciated over 50 years. The agency's furniture, fixtures and equipment are depreciated over 3 to 5 years. Depreciation is computed on a straight-line basis.

ASSUMED CAPITAL

The land and building owned by FHLBB were transferred to OTS under FIRREA. OTS also assumed all furniture, fixtures and equipment previously owned by FHLBB. These assets were recorded at their existing book values established in FHLBB's accounting records. Their value is reported as Assumed Capital in the net position section of the comparative Statements of Financial Position.

INCOME TAXES

As an agency of the U.S. Department of the Treasury, OTS is exempt from all federal and state taxes based on income. The Office of Thrift Supervision is also exempt from state and local property and real estate taxes.

3. CASH AND CASH EQUIVALENTS

The following table summarizes the balances of cash and cash equivalents (in thousands):

	December 31	
	2000	1999
Cash	\$ 615	\$ 752
Overnight investment with Treasury	27,800	17,955
Total cash and cash equivalents	<u>\$ 28,415</u>	<u>\$ 18,707</u>

Interest earned on overnight investments totaled \$2,559,363 and \$1,468,709 for 2000 and 1999, respectively.

UNITED STATES DEPARTMENT OF THE TREASURY
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NOTES TO FINANCIAL STATEMENTS

4. INVESTMENTS HELD TO MATURITY

Investment securities held at December 31, 2000 and 1999 are marketable Treasury securities maturing through May 2003. The amortized cost and market value of these securities are summarized as follows (in thousands):

	December 31	
	2000	1999
Face value	\$ 85,000	\$ 105,000
Unamortized premium, net of unamortized discount	2,224	3,703
Book value of investments held to maturity	\$ 87,224	\$ 108,703
Market value	\$ 86,799	\$ 106,386

Effective interest rates range from 4.71% to 5.63%. Interest earned on these investments totaled \$5,204,144 and \$6,218,222 for 2000 and 1999, respectively.

5. PROPERTY AND EQUIPMENT (in thousands)

The following table summarizes the fixed asset balances:

	December 31	
	2000	1999
Land	\$ 7,101	\$ 7,101
Building	49,188	49,188
Furniture, fixtures, and equipment	7,929	5,147
Total cost	\$ 64,218	\$ 61,436
Accumulated depreciation, building	\$ (20,490)	\$ (19,438)
Accumulated depreciation, furniture, fixtures, and equipment	(5,513)	(4,838)
Total accumulated depreciation	\$ (26,003)	\$ (24,276)
Property and equipment, net	\$ 38,215	\$ 37,160

6. WORKERS' COMPENSATION LIABILITY

The Federal Employees' Compensation Act (FECA) provides income and medical cost protection to covered Federal civilian employees injured on the job, employees who have incurred a work-related occupational disease, and beneficiaries of employees whose death is attributable to a job-related injury or occupational disease. Benefit claims incurred for active and former employees of OTS and its predecessor, the Federal Home Loan Bank Board, are administered by the U.S. Department of Labor (DOL) and are ultimately paid by OTS. Actuarial estimates of future workers' compensation estimates are generated by DOL. The estimated actuarial liability for FECA benefits includes the expected liability for death, disability, medical, and miscellaneous costs for approved compensation cases. The liability is determined using the paid losses extrapolation method calculated over the next 37 years. This method utilizes

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historical benefit payment patterns related to a specific incurred period to predict the ultimate payments related to that period. The annual benefit payments have been discounted to present value using OMB's economic assumptions for 10-year Treasury notes and bonds. Based on information provided by DOL and the U.S. Department of the Treasury, OTS estimates that its FECA liability as of December 31, 2000 and December 31, 1999 was \$5,623,283 and \$4,492,902, respectively. Actual FECA expenses currently payable are included in other accrued liabilities and totaled \$897,789 and \$960,000 as of December 31, 2000 and December 31, 1999, respectively. Changes in the actuarial liability and payments related to FECA are reflected as reductions or increases in benefits expense in the appropriate year.

7. OTHER ACCRUED LIABILITIES (in thousands)

	December 31	
	2000	1999
Payroll and withholding	\$ 4,420	\$ 4,127
Relocation	596	523
Goods and services	5,485	4,873
Other	48	48
	<u> </u>	<u> </u>
Total other accrued liabilities	\$ 10,549	\$ 9,571
	<u> </u>	<u> </u>

8. POST-RETIREMENT BENEFIT LIABILITY

OTS sponsors a life insurance plan (the Plan) for all employees that meet eligibility requirements. The agency funds benefit costs principally on a pay-as-you-go basis, with retiree contributions that are adjusted annually based on certain factors, some of which are discretionary. The Plan is unfunded, with participants paying a portion of the costs. As stated in the Significant Accounting Policies, OTS changed its accounting policy with respect to the Plan as of January 1, 1993. OTS elected to defer recognition of the Plan's transition obligation, and amortize such obligation over twenty (20) years on a straight-line basis.

A Memorandum of Understanding (MOU) was signed in December 1994 between OPM and OTS. The purpose of the MOU was to implement legislation permitting annuitants who retired from OTS prior to January 1995, and who were enrolled in the OTS health plan, to enroll in the Federal Employees Health Benefits Program (FEHB) for coverage effective on or after January 8, 1995. OTS agreed to pay a one-time fee to OPM of approximately \$10,993,000 in consideration of OPM assuming the health portion of the post-retirement plan liability. In accordance with FASB 106, the agreement with OPM constitutes a settlement and, accordingly, OTS recognized a gain on the settlement of approximately \$16,694,000 in 1994. Such gain includes the health portion of the transition obligation that OTS elected to initially recognize over 20 years in 1993. The post-retirement liability of \$9,269,359 in the comparative Statements of Financial Position at December 31, 2000, and \$8,240,354 at December 31, 1999 represent OTS's recognized portion of the remaining liability for participants' future life insurance benefits.

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Net periodic post-retirement benefit cost for life insurance provisions under the Plan included the following components in 2000 and 1999 (in thousands):

	For the Years Ended December 31	
	2000	1999
Service cost - current year	\$ 235	\$ 264
Interest on accumulated post-retirement benefit obligation	760	729
Amortization of transition obligation	298	298
Amortization of loss	(2)	0
Net post-retirement benefit expense	<u>\$ 1,291</u>	<u>\$ 1,291</u>

The following table sets forth the Plan's funded status reconciled with the liability recognized in the Statements of Financial Position (in thousands):

	December 31	
	2000	1999
Accumulated post-retirement benefit obligation:		
Retirees	\$ 4,029	\$ 3,747
Other fully eligible participants	5,594	5,142
Other active participants	2,286	2,104
Accumulated post-retirement benefit obligation	<u>11,909</u>	<u>10,993</u>
Unrecognized transition obligation	(3,578)	(3,877)
Unrecognized net gain	<u>938</u>	<u>1,124</u>
Total post-retirement benefit liability	<u>\$ 9,269</u>	<u>\$ 8,240</u>

The weighted average discount rate used in estimating the accumulated post-retirement benefit obligations at December 31, 2000 and December 31, 1999 was 7%.

9. RENTAL INCOME

OTS leases a portion of its building space to retailers under noncancellable operating leases expiring at various dates through 2008. Some of the leases provide renewal options. The leases provide for annual base rent, some are subject to contingency rents for increased building costs, annual increases based upon changes in the Consumer Price Index, or a percentage of sales in excess of a specified amount. Other leases provide for fixed future increases in rents over the term of the lease. OTS also subleases some of its existing unused leased facilities under similar terms.

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The future minimum rentals to be received under both types of noncancellable operating lease arrangements are as follows (in thousands):

Years ending December 31	Leases	Subleases	Total
2001	\$ 2,277	\$ 475	\$ 2,752
2002	2,541	448	2,989
2003	2,229	448	2,677
2004	224	460	684
2005	174	179	353
Thereafter	457	0	457
	\$ 7,902	\$ 2,010	\$ 9,912

Rental income totaled \$2,793,443 and \$2,686,026 for 2000 and 1999, respectively.

10. RETIREMENT PLANS

OTS employees participate in three retirement systems that are classified as multi-employer plans. Two are administered by OPM. For funding purposes, these two plans function as defined contribution plans; however, the retirement benefits accrue in a manner consistent with a defined benefit plan. The third is a private defined benefit plan administered by the Financial Institutions Retirement Fund (FIRF).

The Civil Service Retirement System (CSRS) is two-tiered. For employees hired prior to January 1, 1984, OTS withholds 7.4 percent of regular earnings. OTS contributed 8.51 percent of regular earnings in 2000 and 1999 for each employee in this tier. The sum is transferred to the Civil Service Retirement Fund, from which this employee group will receive retirement benefits. Employees do not contribute to, or receive benefits from, the Social Security System.

For employees with more than five years of (not necessarily continuous) service, hired on or after January 1, 1984, OTS withholds 1.2 percent of regular earnings, in addition to Social Security withholding. OTS also contributed 8.51 percent of regular earnings in 2000 and 1999 for each employee in this tier. At the point regular earnings exceed the FICA maximum wages (\$76,200 for 2000), employees covered under this tier of CSRS are required to have 7.4 percent of their earnings withheld. This employee group will receive retirement benefits from both CSRS and the Social Security System.

Beginning in January 1987, all employees hired since January 1, 1984, either as new employees or having less than five years of accumulated service (with a break in service over one year) are included in the Federal Employee Retirement System (FERS). For these employees, OTS withheld 1.2 percent and 0.8 percent of regular earnings in 2000 and 1999, respectively. The agency contributed 10.7 percent of regular earnings in 2000 and 1999 for FERS employees. This group of employees will receive benefits from FERS as well as the Social Security System, to which they concurrently contribute.

Pursuant to FIRREA, the Office of Regulatory Activities (ORA) and its twelve examination districts became part of OTS. OTS assumed the cost of ORA's retirement system, which is part of FIRF. Under this private retirement system, OTS contributes a percentage of total FIRF salary. The percentage varies from year to year. Employees do not contribute to FIRF but do contribute to the Social Security System. Changes in percentages are based on the number of active FIRF OTS employees, the number of people that have retired, the benefits paid out, and adjustments to the actuarial gain or loss.

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The Office of Thrift Supervision funds either all FIRF or a portion of CSRS and FERS pension benefits under any of the aforementioned retirement systems relating to its employees and makes the necessary payroll withholdings. However, OTS does not account for the assets of either retirement plan nor does it have actuarial data with respect to accumulated plan benefits or the unfunded pension liability relative to its employees. These amounts are reported by the Office of Personnel Management for both government retirement systems and are not allocated to the individual agencies.

In years prior to 1997, OTS was not required to fund the FIRF plan due to changes in retirement plan provisions of the Internal Revenue Code and cumulative net actuarial experience gains. OTS established a prepaid asset representing the Future Employer Contribution Offset, and adjusted its balance and the corresponding expense annually according to actuarial valuation reports prepared by the Plan Administrator. In 1997, OTS elected to eliminate this prepaid asset by amortizing the remaining balance over three (3) years ending in 1999. This change was due to the FIRF plan's status as a multi-employer plan and as such, the inherent uncertainty of the Office of Thrift Supervision's portion of the Future Employer Contribution Offset.

In addition to the retirement plans described above, OTS employees have the option of participating in retirement savings plans. Employees covered under CSRS or FERS may participate in the OPM-sponsored Thrift Savings Plan (TSP), a plan with characteristics similar to a private-sector 401(k) plan. Civil Service Retirement System and Federal Employee Retirement System covered employees may also participate in the Financial Institutions Thrift Plan (FITP), a 401(k) plan. Employees covered under FIRF may participate in FITP only. All employees may contribute up to 15% of their earnings to the plans. OTS makes matching contributions of up to 7% to the plans for FERS and FIRF participants and up to 2 % for CSRS participants.

The retirement expenses for all OTS plans, included in benefits expense in the accompanying comparative Statements of Operations and Changes in Net Position, are as follows (in thousands):

	For the Years Ended	
	December 31	
	2000	1999
CSRS	\$ 1,468	\$ 1,557
FERS	2,200	1,787
FIRF	0	3,261
TSP	883	784
FITP	4,412	4,310
	<u>\$ 8,963</u>	<u>\$ 11,699</u>

11. DEFERRED COMPENSATION LIABILITY

As part of FIRREA, OTS assumed the Deferred Compensation Plans of the employees working for the Federal Home Loan Banks of Dallas and San Francisco. These plans allowed employees to defer a portion of their income and provided for employer matching contributions. OTS froze these plans and discontinued all plan deferrals or employer matches effective January 1, 1991. Benefits under the assumed plans were intended to be provided by cash value of life insurance policies issued by Mutual Benefit Life that went into rehabilitation on July 16, 1991. Under the rehabilitation plan, withdrawal of cash value prior to December 31, 1999 was restricted and subject to substantial withdrawal penalties. Current plan withdrawals have been funded by OTS. The cash values of those policies, included in other assets in the

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accompanying comparative Statements of Financial Position, are approximately \$1,832,000 in 2000 and \$1,840,000 in 1999.

12. LEASE COMMITMENTS

OTS conducts most of its regional operations in leased facilities under noncancellable operating leases expiring at various dates through 2011. Many of the leases contain a provision to renew at the end of the initial term for an additional one to ten years. The rental payments are based on a minimum rental plus a proportional share of building operating expenses and taxes.

Some of the operating leases provide for rental escalations or stated annual rental increases in the amount of base rent over the lives of the leases. The accompanying comparative Statements of Operations and Changes in Net Position reflect rent expense on a straight-line basis over the lives of the leases.

The minimum rental commitments under noncancellable operating leases are as follows (in thousands):

<u>Years ending</u> <u>December 31</u>	
2001	\$ 5,828
2002	5,890
2003	5,839
2004	5,677
2005	4,302
Thereafter	<u>11,378</u>
	<u>\$ 38,914</u>

Rent expense under noncancellable operating leases totaled \$5,332,986 and \$5,040,969 in 2000 and 1999, respectively.

13. COMMITMENTS AND CONTINGENCIES

OTS is defending several lawsuits that could subject OTS to expenditure of funds. In each of these cases, OTS believes it has substantial legal and factual defenses to the claims asserted, and believes it is more likely than not that OTS will prevail.

In addition, there are approximately 118 lawsuits pending (including four with appealed judgments for plaintiff) against the United States in the U.S. Court of Federal Claims in connection with the elimination of the capital treatment of supervisory goodwill of certain thrift institutions. These cases arise from the enactment of the Financial Institutions Reform, Recovery, and Enforcement Act of 1989. The U.S. Department of Justice is defending these cases on behalf of the United States. The Department of Justice Appropriations Act, 1999, provides a specific appropriation to pay judgments and compromise settlements in the supervisory goodwill cases. Furthermore, 28 U.S.C. Sec. 2517 provides that any judgment issued by the Court of Federal Claims must be paid from appropriated funds. An appropriation was established within the Department of Justice to fund any judgments under this litigation. Therefore, OTS funds, which are non-appropriated, cannot be used to pay judgments in these cases. For the aforementioned reasons, OTS has made no loss accrual for these cases.

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NOTES TO FINANCIAL STATEMENTS

There are also five "tax benefits" lawsuits (including one case that also contains supervisory goodwill claims) brought by thrifts and thrift investors in the U.S. Court of Federal Claims. In these cases, which are being handled by the Department of Justice, the plaintiffs seek damages from the United States arising from 1993 changes in the tax laws, whereby Congress eliminated the favorable tax treatment of certain thrift acquisitions. There is no specific appropriation for the payment of judgments or settlements in these cases. As noted above, however, any judgment issued by the Court of Federal Claims must be paid from appropriated funds. Therefore OTS funds, which are non-appropriated, cannot be used to pay judgments in these cases. For this reason, OTS has made no loss accrual for these cases.

INDEPENDENT AUDITORS' REPORT ON INTERNAL CONTROL

To the Inspector General,
U.S. Department of the Treasury

We have audited the financial statements of the U.S. Department of the Treasury, Office of Thrift Supervision (OTS) as of and for the year ended December 31, 2000, and have issued our report thereon dated March 30, 2001. We conducted our audit in accordance with generally accepted auditing standards; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and applicable Office of Management and Budget (OMB) guidance for audits of federal financial statements.

In planning and performing our audit, we considered OTS' internal control over financial reporting by obtaining an understanding of OTS' internal control, determined whether these internal controls had been placed in operation, assessed control risk, and performed tests of controls in order to determine our auditing procedures for the purpose of expressing our opinion on the financial statements. We limited our internal control testing to those controls necessary to achieve the objectives described in OMB Bulletin No. 01-02. We did not test all internal controls relevant to operating objectives as broadly defined by the Federal Managers Integrity Act of 1982, such as those controls relevant to ensuring efficient operations. The objective of our audit was not to provide assurance on the internal control over financial reporting. Consequently, we do not provide an opinion on internal controls.

Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control over financial reporting that might be reportable conditions. Under standards issued by the American Institute of Certified Public Accountants, reportable conditions are matters coming to our attention relating to significant deficiencies in the design or operation of the internal control that, in our judgment, could adversely affect the agency's ability to record, process, summarize, and report financial data consistent with the assertions by management in the financial statements. Material weaknesses are reportable conditions in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements in amounts that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. Because of inherent limitations in internal controls, misstatements, losses, or noncompliance may occur and not be detected. We noted no matters involving the internal control and its operation that we considered to be material weaknesses as defined above.

INDEPENDENT AUDITORS' REPORT ON INTERNAL CONTROL
(continued)

This report is intended solely for the information and use of the Inspector General of the U.S. Department of the Treasury, the management of the Office of Thrift Supervision, the Office of Management and Budget and Congress. However, this report is a matter of public record, and its distribution is not limited.

Deva & Associates, P.C.

Certified Public Accountants

March 30, 2001

INDEPENDENT AUDITORS' REPORT ON COMPLIANCE
WITH LAWS AND REGULATIONS

To the Inspector General,
U.S. Department of the Treasury

We have audited the financial statements of the U.S. Department of the Treasury, Office of Thrift Supervision (OTS) as of and for the year ended December 31, 2000, and have issued our report thereon dated March 30, 2001.

We conducted our audit in accordance with generally accepted auditing standards; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and applicable Office of Management and Budget (OMB) guidance for audits of federal financial statements. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement.

The management of OTS is responsible for complying with laws and regulations applicable to OTS. As part of obtaining reasonable assurance about whether OTS' financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of applicable laws and regulations, noncompliance with which could have a direct and material effect on the determination of financial statement amounts and certain other laws and regulations specified in applicable OMB guidance, including the compliance criteria referred to in the Federal Financial Management Improvement Act (FFMIA) of 1996. We limited our tests of compliance to these provisions and we did not test compliance with all laws and regulations applicable to OTS.

The results of our tests of compliance disclosed no instances of noncompliance with other laws and regulations discussed in the preceding paragraph exclusive of FFMIA that are required to be reported under Government Auditing Standards or OMB Bulletin guidance.

Under FFMIA, we are required to report whether the agency's financial management systems substantially comply with the Federal financial management systems requirements, applicable Federal accounting standards, and the United States Government Standard General Ledger at the transaction level. To meet this requirement, we performed tests of compliance with FFMIA Section 803(a) requirements.

INDEPENDENT AUDITORS' REPORT ON COMPLIANCE
WITH LAWS AND REGULATIONS
(continued)

The results of our tests disclosed no instances in which OTS' financial management systems did not substantially comply with the three requirements discussed in the preceding paragraph.

Providing an opinion on compliance with certain provisions of laws and regulations was not an objective of our audit and, accordingly, we do not express such an opinion. This report is intended for the information of the Inspector General of the U.S. Department of the Treasury, the management of the Office of Thrift Supervision, the Office of Management and Budget and Congress. However, this report is a matter of public record, and its distribution is not limited.



Certified Public Accountants

March 30, 2001